The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2007: budgetary surplus of $0.7 billion

There was a budgetary surplus of $0.7 billion in September 2007, compared to a $1.3-billion deficit recorded in September 2006. Budgetary revenues were up $2.6 billion, or 15.0 per cent, due primarily to strong growth in income tax and non-tax revenues. Program expenses increased by $0.8 billion, or 5.2 per cent, reflecting increases in transfer payments. Public debt charges decreased by $0.2 billion.

April to September 2007: budgetary surplus of $9.3 billion

For the first six months of the 2007–08 fiscal year, the budgetary surplus is estimated at $9.3 billion, up $3.4 billion from the $5.9-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by $8.5 billion, or 7.7 per cent, reflecting growth across all income streams, particularly income tax and non-tax revenues. Program expenses were up $5.2 billion, or 6.0 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down $0.2 billion.

The monthly results through September do not reflect the $4.8 billion in tax cuts announced in the October 30, 2007 Economic Statement that will take effect in 2007–08. These will be reflected over the remainder of the fiscal year. Specifically, measures retroactive to January 2007 (the reduction of the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to $9,600) will be reflected beginning with the October 2007 *Fiscal Monitor*.

September 2007

There was a budgetary surplus of $0.7 billion in September 2007, compared to a $1.3-billion deficit in September 2006.

Budgetary revenues increased by $2.6 billion, or 15.0 per cent, to $19.7 billion.

- Personal income tax revenues increased by $1.0 billion, or 12.0 per cent, driven by strong growth in source deductions, which in turn reflects gains in employment and wages and salaries. Also, there was one more large processing day for payroll deductions in September 2007 than in September 2006.
- Corporate income tax revenues rose $0.2 billion, or 9.5 per cent, down from the 23.2-per-cent gain recorded through August.
- Other income tax revenues—withholdings from non-residents—increased by $0.2 billion, or 83.5 per cent. Other income tax revenues can be volatile on a monthly basis, as they are determined in large part by corporate dividend payments.

- Excise taxes and duties were up $0.3 billion, or 9.1 per cent, due in large part to a $0.3-billion or 13.7-per-cent gain in goods and services tax (GST) revenues.
- Employment Insurance (EI) premium revenues fell 4.8 per cent, consistent with the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose $0.8 billion, or 62.1 per cent.

Program expenses in September 2007 were $16.3 billion, up $0.8 billion or 5.2 per cent from September 2006, reflecting increases in transfer payments, which were partially offset by a decline in other program expenses of departments and agencies.

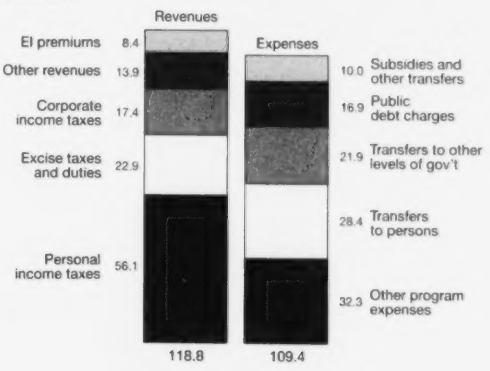
Transfer payments were up $1.4 billion, or 15.2 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up $0.1 billion, or 1.4 per cent. Elderly benefits increased 3.7 per cent while EI benefits declined 2.8 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were relatively stable.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.7 billion, or 20.9 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers increased by $0.7 billion, or 42.4 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses decreased by $0.6 billion, or 10.2 per cent, due in part to a one-time adjustment in September 2006 to reflect an under-accrual of pension costs in prior months.

Public debt charges decreased by $0.2 billion.

Revenues and expenses
(April to September 2007)



April to September 2007

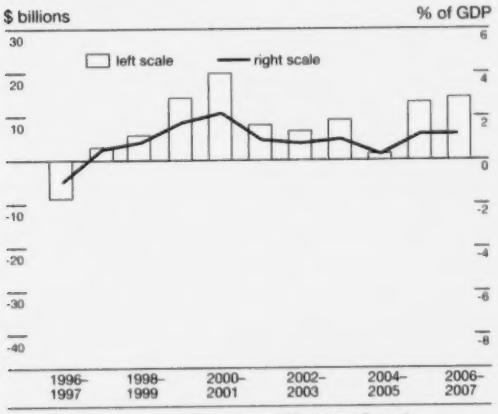
Through the first six months of the 2007–08 fiscal year, there was a budgetary surplus of $9.3 billion, up $3.4 billion from the $5.9-billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by $8.5 billion, or 7.7 per cent, to $118.8 billion.

- Personal income tax revenues rose $2.5 billion, or 4.6 per cent, reflecting growth in employment and wages and salaries, dampened by recent tax relief measures.
- Corporate income tax revenues were up $3.0 billion, or 21.1 per cent, due to ongoing profitability of corporations. The exceptionally strong growth to date also reflects tax remittance patterns last year, when corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made up this difference with significant settlement payments in February and March 2007. As such, the high year-to-date growth rate of corporate receipts is expected to dissipate over the final three months of this fiscal year.
- Other income tax revenues rose 22.9 per cent, reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties increased by $0.4 billion, or 1.9 per cent. GST revenues rose $0.1 billion, or 0.9 per cent. Customs import duties increased by $0.2 billion, sales and excise taxes by $0.1 billion and revenues from the Air Travellers Security Charge by $15 million.
- EI premium revenues were up $0.1 billion, or 0.7 per cent, as gains in employment and wages and salaries more than offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues rose $2.0 billion, or 21.4 per cent.

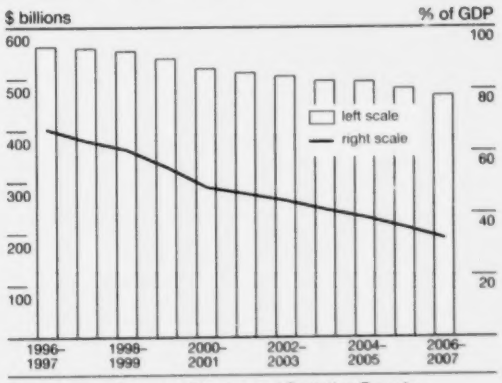
Program expenses in the April to September 2007 period were $92.5 billion, up $5.2 billion, or 6.0 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments increased by $3.9 billion, or 7.0 per cent.

- Major transfers to persons rose $1.5 billion, or 5.6 per cent. Elderly benefits increased by 4.3 per cent and EI benefits by 3.0 per cent. Children's benefits were up $0.7 billion, reflecting transfers under the UCCB, which began in July 2006.
- Major transfers to other levels of government were up $1.5 billion, or 7.6 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up $0.9 billion, or 9.9 per cent.

Other program expenses increased by $1.3 billion, or 4.2 per cent.

Public debt charges decreased by $0.2 billion, or 1.1 per cent.

Financial source of $13.4 billion for April to September 2007

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets.

The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $9.3 billion and a source of $4.0 billion from non-budgetary transactions, there was a net financial source of $13.4 billion in the April to September 2007 period, compared to a net financial source of $3.1 billion in the same period of 2006.

Net financing activities down $31.4 billion

The Government used this net financial source of $13.4 billion and a reduction in its cash balances of $18.1 billion to reduce its market debt by $31.4 billion by the end of September 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at $3.2 billion, slightly below last year's level.

Table 1
Summary statement of transactions

	September		April to September	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary transactions				
Revenues	17,084	19,655	110,297	118,776
Expenses				
Program expenses	-15,481	-16,284	-87,309	-92,540
Public debt charges	-2,886	-2,707	-17,078	-16,896
Budgetary balance (deficit/surplus)	-1,283	664	5,910	9,340
Non-budgetary transactions	177	4,389	-2,860	4,036
Financial source/requirement	-1,106	5,053	3,050	13,376
Net change in financing activities	292	-11,663	-17,527	-31,428
Net change in cash balances	-814	-6,610	-14,477	-18,052
Cash balance at end of period			3,482	3,154

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	September			April to September		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,513	9,533	12.0	53,613	56,091	4.6
Corporate income tax	2,202	2,411	9.5	14,379	17,409	21.1
Other income tax	261	479	83.5	2,116	2,600	22.9
Total income tax	10,976	12,423	13.2	70,108	76,100	8.5
Excise taxes and duties						
Goods and services tax	2,510	2,854	13.7	15,654	15,799	0.9
Customs import duties	307	319	3.9	1,791	1,951	8.9
Sales and excise taxes	873	855	-2.1	4,858	4,971	2.3
Air Travellers Security Charge	28	30	7.1	183	198	8.2
Total excise taxes and duties	3,718	4,058	9.1	22,486	22,919	1.9
Total tax revenues	14,694	16,481	12.2	92,594	99,019	6.9
Employment Insurance premiums	1,046	996	-4.8	8,358	8,414	0.7
Other revenues	1,344	2,178	62.1	9,345	11,343	21.4
Total budgetary revenues	17,084	19,655	15.0	110,297	118,776	7.7

Note: Totals may not add due to rounding.

Table 3
Budgetary expenses

	September			April to September		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,551	2,645	3.7	15,096	15,738	4.3
Employment Insurance benefits	988	960	-2.8	6,473	6,668	3.0
Children's benefits	976	972	-0.4	5,332	5,993	12.4
Total	4,515	4,577	1.4	26,901	28,399	5.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,779	6.0	10,070	10,674	6.0
Canada Social Transfer	708	932	31.6	4,250	4,849	14.1
Total	2,386	2,711	13.6	14,320	15,523	8.4
Fiscal transfers	1,111	1,266	14.0	6,613	7,276	10.0
Canada's cities and communities	0	196	n/a	306	582	90.2
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-261	-262	0.4	-1,566	-1,521	-2.9
Total	3,236	3,911	20.9	20,323	21,860	7.6
Subsidies and other transfers						
Agriculture and Agri-Food	383	153	-60.1	782	589	-24.7
Foreign Affairs and International Trade	138	255	84.8	983	970	-1.3
Health	207	201	-2.9	946	1,018	7.6
Human Resources and Social Development	146	140	-4.1	828	811	-2.1
Indian Affairs and Northern Development	378	369	-2.4	2,381	2,415	1.4
Industry	124	145	16.9	871	928	6.5
Other	243	1,043	329.2	2,295	3,257	41.9
Total	1,619	2,306	42.4	9,086	9,988	9.9
Total transfer payments	9,370	10,794	15.2	56,310	60,247	7.0
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	70	-30.0	695	735	5.8
Canada Mortgage and Housing Corporation	176	187	6.3	974	945	-3.0
Other	281	286	1.8	1,710	1,935	13.2
Total	557	543	-2.5	3,379	3,615	7.0
Defence	1,283	1,293	0.8	7,458	7,829	5.0
All other departments and agencies	4,271	3,654	-14.4	20,162	20,849	3.4
Total other program expenses	6,111	5,490	-10.2	30,999	32,293	4.2
Total program expenses	15,481	16,284	5.2	87,309	92,540	6.0
Public debt charges	2,886	2,707	-6.2	17,078	16,896	-1.1
Total budgetary expenses	18,367	18,991	3.4	104,387	109,436	4.8

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	September		April to September	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary balance (deficit/surplus)	-1,283	664	5,910	9,340
Non-budgetary transactions				
Capital investing activities	-411	-345	-824	-1,499
Other investing activities	-887	-868	-471	-800
Pension and other accounts	1,074	2,164	2,555	4,019
Other activities				
Accounts payable, receivables, accruals and allowances	368	1,459	-6,917	-3,796
Foreign exchange activities	-322	1,712	1,257	4,475
Amortization of tangible capital assets	355	267	1,540	1,637
Total other activities	401	3,438	-4,120	2,316
Total non-budgetary transactions	177	4,389	-2,860	4,036
Net financial source/requirement	-1,106	5,053	3,050	13,376

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	September		April to September	
	2006	2007	2006–07	2007–08
	($ millions)			
Net financial source/requirement	-1,106	5,053	3,050	13,376
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-2,832	-4,662	-1,212	-3,417
Treasury bills	3,200	-5,400	-10,600	-23,200
Canada Savings Bonds	-46	-37	-425	-397
Other	-114	-52	-1,129	-551
Total	208	-10,151	-13,366	-27,565
Foreign currency borrowings	-75	-556	-3,929	-731
Total	133	-10,707	-17,295	-28,296
Cross-currency swap revaluation	118	-1,038	-3	-3,136
Unamortized discounts on debt issues	38	96	-185	96
Obligations related to capital leases	3	-14	-44	-92
Net change in financing activities	292	-11,663	-17,527	-31,428
Change in cash balance	-814	-6,610	-14,477	-18,052

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2007	September 30, 2007	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	106,511	95,994	-10,517
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	254,065	-3,417
Treasury bills	134,074	110,874	-23,200
Canada Savings Bonds	15,175	14,778	-397
Other	1,743	1,192	-551
Subtotal	408,474	380,909	-27,565
Payable in foreign currencies	10,372	9,641	-731
Cross-currency swap revaluation account	-1,091	-4,227	-3,136
Unamortized discounts and premiums on market debt	-6,659	-6,563	96
Obligations related to capital leases	3,096	3,004	-92
Total unmatured debt	414,192	382,764	-31,428
Pension and other accounts			
Public sector pensions	134,726	136,085	1,359
Other employee and veteran future benefits	45,123	45,934	811
Other pension and other accounts	5,211	7,060	1,849
Total pension and other accounts	185,060	189,079	4,019
Total interest-bearing debt	599,252	571,843	-27,410
Total liabilities	705,763	667,837	-37,927
Financial assets			
Cash and accounts receivable	92,586	67,812	-24,774
Foreign exchange accounts	44,178	39,703	-4,475
Loans, investments and advances (net of allowances)	45,094	45,894	800
Total financial assets	181,858	153,409	-28,449
Net debt	523,905	514,428	-9,478
Non-financial assets	56,637	56,499	-138
Federal debt (accumulated deficit)	467,268	457,929	-9,340

Note: Totals may not add due to rounding.

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